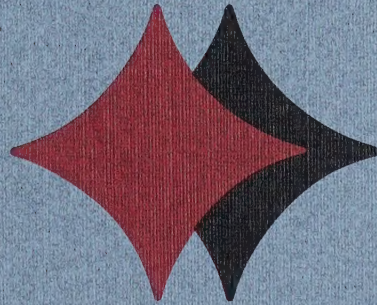


AR61

Windsor Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R8

PEOPLES

oil limited



nineteen ninety-five
ANNUAL REPORT

NOTICE OF THE ANNUAL GENERAL MEETING

Shareholders are cordially invited to attend the Company's Annual General Meeting which will be held on Tuesday, April 2, 1996 at 10:00 AM in the Cardium Room at the Calgary Petroleum Club, 319 5th Avenue SW, Calgary, Alberta.



THE PRESIDENT'S REPORT TO THE SHAREHOLDERS

This is our 16th Annual Report to the Shareholders of Peoples Oil Limited, which reviews events of interest to the Company during the fiscal year ended October 31, 1995.

During the past year the Company spent considerable effort working with various oil and gas groups with a view to a possible corporate merger. To date, our efforts have been unsuccessful. This is partially because of the discrepancy in the value placed on the Company by management compared to the lower value perceived by other industry groups due to the current weakness in natural gas prices.

Peoples is cautiously optimistic that natural gas prices will improve in 1996 as market forces act to re-balance supply and demand. The Company's view is that the current deliverability surplus will begin to dissipate as the industry in response to lower gas prices and decreased cash flow, reduces overall drilling activity.

Management continues to believe that the best corporate arrangement for Peoples would be to merge with an established company that is adequately financed and is interested in the development of natural gas resources.

We plan to continue to investigate corporate opportunities and at the writing of this report we have two new groups who have shown an interest in Peoples.

DEVELOPMENTS

In September 1995 we surveyed two drilling locations in the Keho area, however, plans for drilling were discontinued at the request of a potential merger candidate. Unfortunately, the proposed business combination failed to be completed.

We now plan to commence drilling operations in the second or third quarter of this year if gas prices are satisfactory.

In September, Peoples acquired additional strategic lands at Keho at a sale of Crown oil and gas leases. Management believes these new lands are highly potential for natural gas reserves.

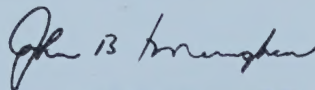
PLANT OPERATIONS

There has been a recent change in the partner held interests in the two natural gas plants in which Peoples owns an interest at Keho. There will be new owner Operators in each plant. This ownership change should provide us with an opportunity to put each of the two plants into operation in a positive earning position. The two plants are currently shut-down because of lack of raw natural gas reserves.

BOARD OF DIRECTORS

We regret to announce that Michael W. Maughan has resigned as Vice-President of Exploration and Director to pursue other opportunities.

Respectfully submitted on behalf of the Board of Directors.



John B. Maughan, P.Eng.
President
Calgary, Alberta
January 11, 1996

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Peoples Oil Limited as at October 31, 1995 and 1994 and the statements of income and retained earnings (deficit) and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at October 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Shorne

Chartered Accountants

Calgary, Canada
December 13, 1995

FINANCIAL STATEMENTS

BALANCE SHEETS

October 31, 1995 and 1994.

	1995	1994
ASSETS		
Current assets:		
Cash and term deposits	\$ 1,273,513	\$ 1,615,674
Accounts receivable	9,845	30,810
	<u>1,283,358</u>	<u>1,646,484</u>
Petroleum and natural gas properties (note 3)	452,602	575,063
Other	11,253	11,253
	<u>\$ 1,747,213</u>	<u>\$ 2,232,800</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 30,129	\$ 152,210
Provision for future site restoration	35,370	23,021
Shareholders' equity:		
Share capital (note 5):		
Authorized: 10,000,000 common shares without nominal or par value		
Issued: 3,470,003 common shares	2,358,634	2,358,634
Deficit	(676,920)	(301,065)
	<u>1,681,714</u>	<u>2,057,569</u>
	<u>\$ 1,747,213</u>	<u>\$ 2,232,800</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ *John B. Thompson* _____ Director

_____ *Mark S. Shuman* _____ Director

FINANCIAL STATEMENTS

STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)

Years ended October 31, 1995 and 1994

	1995	1994
Revenues:		
Oil and gas	\$ 82,611	\$ 238,271
Processing	21,215	12,677
Interest	94,636	82,525
	198,462	333,473
Expenses:		
General and administrative	221,641	376,451
Production costs	73,676	156,936
Depletion and depreciation	279,000	567,810
Loss on disposal of U.S. operations (note 6)	-	25,738
	574,317	1,126,935
Net loss	(375,855)	(793,462)
Retained earnings (deficit), beginning of year	(301,065)	492,397
Deficit, end of year	\$ (676,920)	\$ (301,065)
Loss per share	\$ (.11)	\$ (.23)

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended October 31, 1995 and 1994

	1995	1994
Cash provided by (used in):		
Operations:		
Net loss	\$ (375,855)	\$ (793,462)
Items not affecting working capital:		
Depletion and depreciation	279,000	567,810
Loss on disposal of U.S. operations	-	13,785
Net changes in non-cash working capital balances	(101,116)	157,665
	(197,971)	(54,202)
Financing:		
Common shares, net of issue costs	-	19,900
Investments:		
Additions to petroleum and natural gas properties	(144,190)	(513,730)
Effect of currency translation adjustments on cash flows	-	17,207
Proceeds on disposal of petroleum and natural gas properties	-	4,156
	(144,190)	(492,367)
Decrease in cash and term deposits during the year	(342,161)	(526,669)
Cash and term deposits, beginning of year	1,615,674	2,142,343
Cash and term deposits, end of year	\$ 1,273,513	\$ 1,615,674

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

Years Ended October 31, 1995 and 1994

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) PETROLEUM AND NATURAL GAS PROPERTIES:

The Company follows the full-cost method of accounting for oil and gas operations in accordance with the Canadian Institute of Chartered Accountants Accounting Guideline "Full Cost Accounting in the Oil and Gas Industry". Capitalized costs are limited to undiscounted estimated future net revenues, using year end prices, from production of proven reserves, after applicable income taxes and general and administrative expenses.

Costs incurred are being depleted on the unit-of-production method based on estimated gross proven reserves. Oil and natural gas reserves and production are converted into equivalent units based on their estimated relative energy content. The Company has not capitalized any general and administrative expenses for the year.

(b) FUTURE SITE RESTORATION COSTS:

Future site restoration and reclamation costs are amortized using the unit-of-production method. These costs are estimated by the Company's engineers based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and depreciation.

(c) FOREIGN CURRENCY TRANSLATION:

The accounts of the United States subsidiary, which while operating was accounted for as a self-sustaining operation, have been translated into Canadian dollars on the following basis:

(i) Assets and liabilities at the rate of exchange at the balance sheet date; and

(ii) Revenue and expenses at the average rate of exchange for the year.

All gains and losses arising from foreign currency translation of the United States subsidiary were included in the foreign currency translation account. In 1994 these gains were realized and recorded in income when the U.S. operations were wound up.

(d) JOINT VENTURE ACCOUNTING:

Substantially all of the Company's exploration activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

(e) NET EARNINGS (LOSS) PER SHARE:

Net earnings (loss) per share is calculated using the weighted average number of shares.

2. RELATED PARTY TRANSACTIONS:

The Company participates in joint ventures with Mon-Oil Inc., a wholly-owned subsidiary of Mon-Oil Limited, a shareholder. The terms of the joint ventures are considered comparable to similar transactions with non-related parties.

Monoco Inc., and Mon-Oil Ltd., companies owned by a director and officer, have provided management services to the Company during the year in the amount of \$147,400 (1994 - \$166,672).

3. PETROLEUM AND NATURAL GAS PROPERTIES:

	1995	1994
Oil and gas properties	\$1,305,477	\$1,161,287
Less accumulated depletion and depreciation	(852,875)	(586,224)
Net book value	\$ 452,602	\$ 575,063

4. INCOME TAXES:

	1995	1994
Provision (recovery) for income taxes based on combined basic Canadian Federal and Provincial tax rate of 44.34%	\$ (166,700)	\$ (351,820)
Changes in income taxes resulting from:		
Non-deductible crown payments, net	5,000	10,682
Resource allowance	-	(7,500)
Accounting loss not recognized	161,700	348,478
Other	-	160
	\$ -	\$ -

FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS (Continued)

Years Ended October 31, 1995 and 1994

5. SHARE CAPITAL:

	Number of Shares	Amount
Share capital, October 31, 1993	3,454,003	\$2,338,734
Private placement, net of share issue costs of \$100	16,000	19,900
Share capital, October 31, 1994 and 1995	3,470,003	\$2,358,634

As at October 31, 1995, the Company has outstanding options to issue 140,000 (1994 - 70,000) common shares to directors and employees at \$0.30 per common share. During the year options for 170,000 common shares at \$0.30 per share were granted, and options for 30,000 common shares at \$0.30 per share, 20,000 common shares at \$1.28 per share and 50,000 common shares at \$0.44 per share were cancelled.

6. DISPOSITION OF U.S. OPERATIONS:

In 1994, the Company sold its U.S. inventory and petroleum and natural gas properties to a company controlled by the President. These asset disposals effectively wound up the operations of the U.S. subsidiary and the remaining cash was returned to the Company.

The disposition of the U.S. operating assets as of April 1994 was as follows:

	Book Value	Proceeds	Loss
Inventory	\$ 30,776	\$ 18,823	\$ 11,953
Petroleum and natural gas properties	60,126	4,156	55,970
Realization of foreign currency gain			(42,185)
			13,785
			<u>\$ 25,738</u>

7. SEGMENTED INFORMATION:

The Company operates principally as an oil and gas exploration and development company. During 1995 the Company operated only in Canada.

	Canada	1994 United States Proceeds	Total
Revenues:			
Oil and gas	\$ 229,798	\$ 8,473	\$ 238,271
Processing	12,677	-	12,677
Interest	77,367	5,158	82,525
	319,842	13,631	333,473
Expenses:			
Production costs	153,271	3,665	156,936
Depletion and depreciation	567,810	-	567,810
	721,081	3,665	724,746
Segmented income (loss) before the following	(401,239)	9,966	(391,273)
General and administrative			376,451
Loss on disposal of U.S. operations			25,738
Net loss			\$ (793,462)
Identifiable assets	\$ 2,232,800	\$ -	\$ 2,232,800

NOTES

CORPORATE INFORMATION

OFFICERS AND DIRECTORS:

John B. Maughan, President, Treasurer & Director

Sherry L. Cremer, Vice-President Administration,
Corporate Secretary & Director

H. Norman Stewart, Director

Alice-Marie Maughan, Assistant Secretary/Treasurer & Director

G. F. Stansberry, Director

HEAD OFFICE AND REGISTERED OFFICE:

1410 Elveden House, 717 - 7th Avenue SW, Calgary, Alberta T2P 0Z3

Telephone: (403) 269-7717 • Fax: (403) 265-1637

AUDITORS:

KPMG Peat Marwick Thorne, 1200, 205 - 5th Avenue SW, Calgary, Alberta T2P 4B9

BANK:

The Royal Bank of Canada, Main Branch, 339 - 8th Avenue SW
Calgary, Alberta T2P 1C4

SOLICITORS:

Burstall Ward, 1800, 800 - 5th Avenue SW, Calgary, Alberta T2P 3T6

DuMoulin Black, 10th Floor, 595 Howe Street, Vancouver, BC V6C 2T5

EXCHANGE LISTING:

Alberta Stock Exchange, Symbol PPS

REGISTRAR AND TRANSFER AGENT:

Montreal Trust, 600, 530 - 8th Avenue SW
Calgary, Alberta T2P 3S8 Telephone: (403) 267-6800

AUTHORIZED CAPITALIZATION:

10,000,000

SHARES ISSUED:

3,470,003



